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9 LA JOLLA COVE INVESTORS, INC.

10 UNITED STATES DISTRICT COURT

11 NORTHERN DISTRICT OF CALIFORNIA

12 LA JOLLA COVE INVESTORS, INC., a
13 California corporation,

14 Plaintiff,

15 vs.

16 WORLD SURVEILLANCE GROUP
17 INC., a Delaware Corporation, DRONE
18 AVIATION HOLDING CORP., a Nevada
19 Corporation,

20 Defendants.

**DEFENDANT LA JOLLA COVE
INVESTORS, INC.'S COMPLAINT**

Case No.

21 Plaintiff La Jolla Cove Investors, Inc., for its Complaint, alleges as follows against
22 Defendant World Surveillance Group Inc. ("WSGI") and Drone Aviation Holding Corp.
23 ("Drone"):

GENERAL ALLEGATIONS

The Parties, Jurisdiction And Venue

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25 1. At all times mentioned herein, La Jolla was a corporation organized and existing
26 under the laws of the State of California, with its principal place of business in La Jolla,
27 California. La Jolla is an investment company focused on private money lending.

28 2. La Jolla is informed and believes, and thereon alleges, that at all times mentioned

1 herein, WSGI was a corporation organized and existing under the laws of the State of Delaware.
2 WSGI is engaged in the business of developing unmanned aerial vehicles.

3 3. La Jolla is informed and believes, and thereon alleges, that at all times mentioned
4 herein, Drone was a corporation organized and existing under the laws of the State of Nevada.

5 4. This Court has jurisdiction pursuant to diversity of the parties under 28 USC
6 § 1332, in that the parties are citizens of different states and the amount in controversy exceeds
7 \$75,000.

8 5. Jurisdiction over the parties exists because, among other things, Defendants
9 committed intentional torts that were expressly aimed at California and knowingly caused injury
10 in California and otherwise purposefully directed their activities towards residents of California,
11 including but not limited to La Jolla.

12 6. The Settlement Agreement and Mutual Release between WSGI and La Jolla (the
13 “Settlement Agreement”), which is at issue, and which is attached hereto as Exhibit A, states that
14 disputes regarding the interpretation and/or effect of it “shall be submitted to, and the Parties
15 agree that exclusive jurisdiction and venue are proper in, the United States District Court for the
16 Northern District of California.”

17 7. The prior action between the La Jolla and WSGI, from which the Settlement
18 Agreement at issue arose, was *World Surveillance Group, Inc. v. La Jolla Cove Investors, Inc.*,
19 U.S. District Court (N.D. Cal.), Case No. 3:13-cv-03455 JD (the “Prior Action”). The Prior
20 Action was venued in the San Francisco division of the Northern District of California.

21 8. Venue is further proper in this district as a substantial part of the events or
22 omissions giving rise to the claim occurred here and the Defendants are subject to the Court’s
23 personal jurisdiction with respect to this action in this venue.

24 **La Jolla And WSGI’s Agreements, And WSGI’s Related Indebtedness To La Jolla**

25 9. On or about January 25, 2012, La Jolla and WSGI entered into several contracts
26 concerning La Jolla’s agreement to invest money in WSGI, and WSGI’s corresponding duty to
27 issue and sell stock to La Jolla. Specifically, La Jolla and WSGI agreed to and executed (1) the
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1 Securities Purchase Agreement (2) the Equity Investment Agreement and (3) the 4³/₄% Secured
2 Convertible Debenture (the “Debenture”) (collectively, the “Agreements”).

3 10. Pursuant to the Agreements, WSGI began accruing a debt to La Jolla, which it
4 failed to pay. WSGI also failed to pay La Jolla for the parties’ agreed upon finder’s fee, as well
5 as interest on the Debenture. As a result, WSGI owed La Jolla a substantial amount of money.

6 **WSGI Baselessly Sues La Jolla**

7 11. Despite WSGI’s clear breaches of its Agreements with La Jolla, WSGI rushed to
8 court so it could be the plaintiff, and in a misguided assumption that filing suit would force La
9 Jolla to either walk away from the money it was owed, or settle for far less than it was owed.
10 WSGI filed suit against La Jolla in late July 2013 for alleged breach of the Agreements.

11 **Drone “Strips” WSGI Of Its Assets**

12 12. In or about June 2014, and while the Prior Action was pending, Mr. Travis Huff,
13 the Portfolio Manager at La Jolla, had a phone call and subsequent in-person meeting with an
14 individual named Kevin Fickle, the President of NUWA Group. Apparently unaware that La
15 Jolla was in litigation with WSGI regarding WSGI’s non-payment, Mr. Fickle boasted about the
16 fact that he and his company, per the direction of WSGI and DRNE’s management team, had
17 “stripped WSGI of its assets and put them into DRNE,” or Drone. Mr. Fickle further volunteered
18 that (a) the assets sale was done specifically to avoid WSGI’s growing liabilities to its creditors
19 and (b) Drone did not pay full/proper consideration for the assets.

20 13. At the time WSGI was “stripped of its assets,” WSGI owed a substantial amount
21 of money to La Jolla.

22 **The Settlement Agreement And Its Terms**

23 14. On or about December 23, 2014, the parties entered into the Settlement
24 Agreement, which resolved certain disputes among the parties, including but not limited to those
25 raised in the Prior Action.

26 15. Pursuant to Paragraph 1 of the Settlement Agreement, WSGI was to pay La Jolla
27 \$290,000.00, with \$150,000.00 due on or before December 19, 2014, and the remaining balance
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of \$140,000.00 due in monthly installments of \$20,000.00 on the 19th day of the month, beginning on January 19, 2015, and ending on July 19, 2015.

16. Paragraph 2.a of the Settlement Agreement provides that if any payment is not received by 5:00 p.m. PST on the date due, La Jolla may provide a Notice of Default.

17. Pursuant to Paragraph 2.b. of the Settlement Agreement, if WSGI fails to make any outstanding payment within 10 days of a Notice of Default, a Payment Default will be deemed to occur, and La Jolla “shall be entitled to judgment in the amount of three hundred ninety-thousand dollars (\$390,000.00), less any payments made by [WSGI] pursuant to this Settlement Agreement.”

18. Under Section 2.c of the Settlement Agreement, any time after a Payment Default, La Jolla may, after providing 24 hours’ notice, submit the parties’ Stipulation for Entry of Judgment and Judgment (“Stipulated Judgment”). A true and correct copy of the Stipulated Judgment is attached hereto as Exhibit B.

WSGI’s Breach Of The Settlement Agreement

19. WSGI made the following payments under the Settlement Agreement on the following dates:

- a. December 22, 2014, \$150,000.00
- b. January 23, 2015, \$20,000.00
- c. February 19, 2015, \$20,000.00
- d. March 17, 2015, \$20,000.00

20. Pursuant to Paragraph 1.b. of the Settlement Agreement, WSGI was to have paid La Jolla \$20,000 by April 19, 2015. Despite its promises to pay, WSGI failed to make its April 19, 2015 payment, or any payments thereafter. La Jolla is informed and believes, and on that basis alleges, that due to its transfer to Drone, WSGI did not have adequate assets to satisfy its obligations under the Settlement Agreement, and that it knew this was the case when it entered into the Settlement Agreement.

21. On April 28, 2015, La Jolla provided notice to Glenn D. Estrella, President and

1 CEO of WSGI (the "Notice"), indicating that an Event of Default had occurred under the
2 Settlement Agreement, pursuant to Paragraph 2.a. Attached hereto as Exhibit C is a true and
3 correct copy of the Notice.

4 22. In accordance with Paragraph 2.a. of the Settlement Agreement, the Notice was
5 sent by overnight mail to Mr. Estrella at the address set forth in the Settlement Agreement, as well
6 as by email. Attached hereto as Exhibit D is a true and correct copy of an email confirming the
7 overnight delivery and the email to Mr. Estrella regarding and attaching the Notice.

8 23. On April 28, 2015, and in accordance with Paragraph 2.a of the Settlement
9 Agreement, La Jolla's counsel sent an email to William Weisberg, counsel for WSGI, in which he
10 included a copy of La Jolla's notice to Glenn D. Estrella, President and CEO of WSGI, indicating
11 that an Event of Default had occurred under the Settlement Agreement. Attached hereto as
12 Exhibit E is a true and correct copy of said email.

13 24. Paragraph 2.b. of the Settlement Agreement provides that, if WSGI fails to make
14 an outstanding payment within 10 days of a Notice of an Event of Default, a Payment Default
15 will be deemed to occur, and La Jolla (1) will be entitled to judgment and (2) may enter a
16 Stipulated Judgment. WSGI did not make its outstanding payment within 10 days of the Notice,
17 or otherwise respond to the Notice.

18 25. Pursuant to Section (4) of the Stipulated Judgment,

19 It is agreed that the accurate and correct declaration of any employee or
20 attorney of La Jolla Cove Investors, Inc. shall be sufficient, subject to
21 verification by the Court with the parties, to establish the exact Amount
22 Owed pursuant to this Stipulation and shall be sufficient to secure the
issuance of a writ of execution, in accordance with the terms set forth
herein.

23 26. As set forth above, a total amount of \$210,000.00 has been paid by WSGI to date.
24 No payments have been made since March 17, 2015. As a result, \$180,000.00 is the Amount
25 Owed under the Settlement Agreement.
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FIRST CAUSE OF ACTION

(Breach Of Contract)

As To WSGI

27. La Jolla re-alleges and incorporates herein by reference the previous allegations as if fully set forth herein.

28. The Settlement Agreements is a valid, enforceable contract between the parties.

29. La Jolla fully performed each of its obligations under the Settlement Agreement, or the performance of those obligations has been prevented or excused.

30. WSGI breached the terms of the Settlement Agreement, as set forth more fully above.

31. As a direct and proximate result of WSGI's breaches, La Jolla has suffered and continues to suffer damages in an amount of \$180,000.00, plus interest.

SECOND CAUSE OF ACTION

(Intentional Misrepresentation — Promise Without The Intent To Perform)

As To WSGI

32. La Jolla re-alleges and incorporates herein by reference the previous allegations as if fully set forth herein.

33. WSGI entered into the Settlement Agreement with La Jolla.

34. La Jolla is informed and believes, and on that basis alleges, that due to its transfer of assets to Drone, WSGI did not have adequate assets to satisfy its obligations under the Settlement Agreement, and that it knew this was the case when it entered into the Settlement Agreement.

35. La Jolla is informed and believes, and on that basis alleges, that WSGI entered into the Settlement Agreement with the intent to induce La Jolla's reliance on the promises set forth therein.

36. La Jolla justifiably relied on WSGI's promises, and on that basis dismissed its counterclaims against WSGI.

1 37. La Jolla's justifiable reliance resulted in damage to La Jolla, as set forth above.

2 38. WSGI's conduct constituted promissory fraud, in violation of Cal. Civ. Code §
3 1710(4) ["a promise, made without any intention of performing it"].

4 39. WSGI's acts were done maliciously, oppressively and/or with the intent to
5 defraud. Consequently, La Jolla is entitled to punitive and exemplary damages in an amount to
6 be proven at trial.

7 **THIRD CAUSE OF ACTION**

8 **(Fraudulent Transfer And Conspiracy To Commit Same)**

9 **As To All Defendants**

10 40. La Jolla re-alleges and incorporates herein by reference the previous allegations as
11 if fully set forth herein.

12 41. As set forth more fully above, the conveyance or "stripping" of assets was made
13 by WSGI to Drone without fair consideration.

14 42. As set forth more fully above, at the time of the conveyance, WSGI was insolvent
15 in that the present fair salable value of its assets was less than the amount that was required to pay
16 its probable liability on its existing debts as they become absolute and matured, including but not
17 limited to WSGI's debts to La Jolla. La Jolla is informed and believes, and on that basis alleges,
18 that Drone was aware of these facts.

19 43. As set forth more fully above, the conveyance was made by WSGI with an intent
20 to defraud its creditors, including La Jolla, and accepted by Drone with knowledge of the same.

21 **FOURTH CAUSE OF ACTION**

22 **(Unfair Business Practices)**

23 **As To All Defendants**

24 44. La Jolla re-alleges and incorporates herein by reference the previous allegations as
25 if fully set forth herein.

26 45. Defendants' (1) fraudulent misrepresentations identified above and (2) fraudulent
27 conveyances constitute unfair competition and unlawful business practices in violation of
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Business and Professions Code Section 17200 *et seq.*

46. Defendants have caused loss and damage to La Jolla. EG has suffered injury to its business and profit in an amount as yet unknown but to be proven at trial.

PRAYER FOR RELIEF

1. For damages;
2. For punitive damages;
3. For attorneys' fees;
4. For costs;
5. For interest;
6. For an order from this court that the transfer from WSGI to Drone be set aside and voided to the extent necessary to satisfy La Jolla's claims and interest;
7. For an order enjoining Drone from selling, encumbering, or disposing of the property transferred to it by WSGI; and
8. For other further legal and/or equitable relief as the Court deems just and proper.

Dated: August 19, 2015

SEUBERT FRENCH FRIMEL & WARNER LLP

By



WILLIAM J. FRIMEL
Attorneys for Plaintiff
LA JOLLA COVE INVESTORS, INC.

VERIFICATION

I, Travis Huff, am a Portfolio Manager of La Jolla Cove Investors, Inc., Plaintiff in this action. I have read the La Jolla's Complaint, and am familiar with its contents. Based on my knowledge, the Complaint is true and correct.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on MONDAY AUG 17, 2015, at OCCIDENTAL, California.



TRAVIS HUFF